Monday, September 10th 2007 **Subprime Mess:** If you had asked me just over a month ago, I would have told you that I thought the subprime lending debacle would have been contained and not spread to other areas of the economy or lending. I was wrong. Clearly, the mortgage woes have now affected Triple-A loans and housing prices and even commercial and business lending. It seems that investors around the world who buy these sorts of mortgages are now adding a new "risk premium" to all real estate loans with the belief that there is probably some risk in any loan package that they can't see and isn't stated. My concern now is that this could lead the entire economy downhill. Federal Reserve Board Chairman Ben Bernanke has stated on various occasions that a hard fall in the housing/real estate market is the greatest threat to continued economic growth in this country. The housing market was somewhat flat before all of this came about so it is vulnerable. Therefore, we are not just talking about a few people and their mortgages here. We are talking about the economic health of the entire country. And I'm worried. I serve on the Financial Services Committee in Congress, which has jurisdiction over monetary policy, banking, insurance, housing, securities markets and capital markets. In other words, this committee overlooks all of the areas that are the subject of the current mortgage crisis. Much of my concern is that we have only seen the proverbial tip of the iceberg of the economic damage that has been done out there. I have great faith in Chairman Bernanke. But a cut in U.S. interest rates may not be enough to cure these ills which are international in nature. How many loans that have adjustable rate mortgages will reset to rates that threaten delinquencies? Has one institution guaranteed the loans of another institution? Are any of the government-sponsored enterprises saddled with leverage that will be challenging? I intend to ask a lot of tough questions of a lot of people to try to really understand where we are in the next couple of weeks.

Then what? There are some proposals floating out there to bail-out the mortgagees and some of the companies that are caught up in this, as well as proposals to create new legal liabilities for anyone in the chain of ownership of a package of loans for any faults made by the loan originators. I do not agree with either of these approaches. Extending liability will have the affect of further drying up loan money and will exacerbate the problem, not help it (although the trial lawyers will love it which is why, I'm sure, this proposal is even out there) . And bail-outs will reward people for bad behavior which is also not a good idea. On the other end of the spectrum are those who say we should do nothing because the market will sort itself out. You may be surprised to hear that this Milton Friedman following conservative does not believe we should bet our economy on this strategy either.

In my opinion, what we need to do is to give reassurance to markets and investors that the loans they may buy and assume are what they are purported to be, and that there is no unseen risk for which an extra premium or some hesitation is required. Furthermore, we should endeavor to keep as many people in their houses and out of foreclosure as possible without "bailing them out" or rewarding bad behavior. How we do that is a somewhat less clear. Perhaps we can keep people in their homes by facilitating loan restructuring without loan forgiveness. This will not save the non-owner occupied person who paid $100,000 over market with no cash down, but it may help the person trying to stay in their owner-occupied dwelling after an interest rate reset. And maybe we can look at some further disclosures and regulation of mortgage originations so that the abuses that occurred are less likely to do so in the future. These ideas are certainly not the definitive ones. It is important to know the totality of the problem before drafting a solution and I'm not sure that any of us know that totality yet. I hope we neither rush to do something nor assume that nothing needs to be done.

But there's at least one thing of which I am sure - raising taxes on anyone, as many Democrats have proposed to do, will only worsen the economy. If the economy slows, the deficit, after several years of dropping, will begin to rise again as spending increases exceed revenue gains. This will fuel the call for tax increases. But let us not forget that the largest revenue gains in recent history came after a tax cut (2003), not after tax increases (1990 and 1993). Instead we should be looking at tax cuts that will stimulate investment and reward risk-taking. Our corporate income tax is now one of the highest in the world and should be lowered. And we could reduce the tax on interest income and/or further reduce the capital gains tax to spur investment in what are now troubled sectors of the economy.

Many of you agree with me on issues and some disagree. But I hope you all know that I am always candid with you and I am genuinely trying to do what I think is best. This is not going to be an easy issue with easy answers. It also should not be one in which partisan ideologies prevail. No one, Republican or Democrat, wants to see a recession. I will do all I can to be a force in steadying the markets and the economy.

I will keep you posted.

Until later this week, I remain respectfully,

Congressman John Campbell